

A NOVEL HEALTH SCORE DEVELOPED FOR NBFCS/HFCS CAN PROVIDE EARLY WARNING SIGNALS OF IMPENDING LIQUIDITY CRISIS IN THE SECTOR

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Ministry of Finance

A Novel Health Score Developed For NBFCS/HFCS Can Provide Early Warning Signals of Impending Liquidity Crisis in the Sector

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A new diagnostic Health Score developed for the Non-Banking Financial Company (NBFC) and Housing Finance Company (HFC) sectors can help detect early warning signals of impending liquidity problems facing the companies in this sector. Using a novel scoring methodology, quantifiable Rollover risk is calculated for the HFCs and the retail NBFCs. The Economic Survey 2019-20 presented in Parliament today gives a detailed analysis of this new methodology including its reliability in predicting financial health of NBFC and HFC firms.

The Health Score is based on the Rollover risk which includes Asset Liquidity Management risk, interconnectedness risk and Financial and Operating Resilience of an NBFC. Health Score can serve the critical role of predicting refinancing related stress faced by the financial firms in advance. It can serve as an important monitoring mechanism to prevent such problems in future.

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